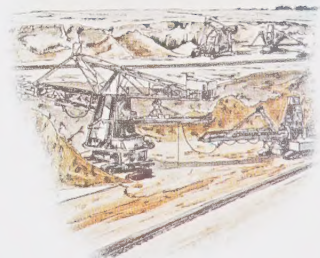
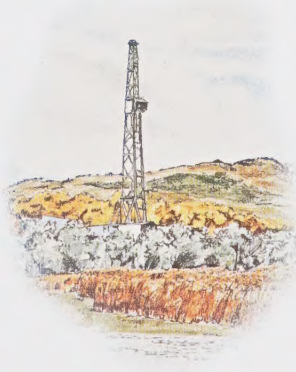
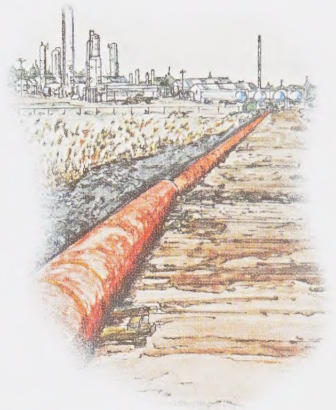


AR29



CANADIAN
INDUSTRIAL
GAS & OIL LTD.



CANADIAN INDUSTRIAL GAS & OIL LTD.

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Head Office

640 Eighth Avenue S.W.,
Calgary, Alberta, Canada T2P 1G9

London Office

1st floor Wellington House, 6/9 Upper St.
Martin's Lane, London, England WC2H 9DL

Auditors

RIDDELL, STEAD & CO.

Calgary, Alberta

Registrars and Transfer Agents

NATIONAL TRUST COMPANY, LIMITED

Calgary, Montreal, Toronto, Vancouver, Winnipeg

THE BANK OF NEW YORK

New York

Exchange Listing

TORONTO STOCK EXCHANGE

Toronto, Ontario

The Annual General Meeting of the
Company will be held at 9:30 a.m. Mountain
Standard time on Thursday, April 16, 1974
at the Holiday Inn, Calgary, Alberta.

Directors

***Edward G. Battle** Toronto, Ontario
Director, President & Chief Operating Officer,
Northern and Central Gas Corporation Limited

***Edmund C. Bovey** Toronto, Ontario
Chairman of the Board and Chief Executive Officer,
Northern and Central Gas Corporation Limited

C. Spencer Clark Seattle, Washington
Vice Chairman of the Board,
Northern and Central Gas Corporation Limited
Chairman of the Board,
Cascade Natural Gas Corporation

Robert B. Craddock Tucker's Town, Bermuda
Director of Northern and Central Gas
Corporation Limited

†J. Ian Crookston Toronto, Ontario
Chairman of the Board,
Nesbitt, Thomson and Company, Limited

***Edward A. Galvin** Calgary, Alberta
Chairman of the Board & President,
Canadian Industrial Gas & Oil Ltd.

†*Richey B. Love, Q.C. Calgary, Alberta
Senior Partner,
Macleod Dixon, Barristers & Solicitors

Henry S. Romaine Mt. Kisco, New York
Senior Vice President,
Mutual Life Insurance Company of New York

Vernon Taylor Toronto, Ontario
Retired oil company executive

†William I. M. Turner, Jr. Montreal, Quebec
Director, President & Chief Executive Officer,
Consolidated-Bathurst Limited

†Adam H. Zimmerman Toronto, Ontario
Vice-President and Comptroller,
Noranda Mines Limited

*Member of the Executive Committee

†Member of the Audit Committee

Officers

Edward A. Galvin	Chairman of the Board & President
Edmund C. Bovey	Chairman of the Executive Committee
Donald D. Barkwell	Executive Vice-President
Edward G. Battle	Senior Vice-President
Stewart R. Dyckman	Senior Vice-President
Richard S. Buckland	Vice-President, Exploration
George T. Hefter	Vice-President, LP Gas
William C. Hennenfent	Vice-President, Corporate Planning
Donald R. Jepson	Vice-President, Production
Wilfrid A. Loucks	Vice-President, Finance & Services
D. Stewart McIntosh	Vice-President, Pipelines
Hugh Mogensen	Vice-President, Foreign Operations
Laurence A. Sills	Secretary
A. Kenneth Davies	Treasurer
Russell G. Rennie	Assistant Secretary
Curt W. Brown	Comptroller

COMPARATIVE SUMMARY

year ended December 31, 1973

		1973	1972	1971
Revenue		\$58,964,000	\$47,432,000	\$42,086,000
Cash flow		\$25,554,000	\$19,476,000	\$17,479,000
Net earnings		\$15,596,000	\$10,720,000	\$ 9,889,000
Cash flow	per common share	\$1.17	90¢	81¢
Net earnings	per common share	72¢	50¢	47¢
Expenditures On				
Exploration & Property Acquisitions		\$25,300,000	\$14,300,000	\$15,700,000
Plant and Equipment		\$4,300,000	\$6,800,000	\$8,500,000
Shares Issued and Outstanding				
Common (3 for 1 split in 1969)		21,644,128	21,264,674	21,112,127
Preferred		—	154,963	167,616
Dividends Paid per share				
Common		10¢	—	—
Preferred		55¢	55¢	55¢
Net Production				
*Crude Oil, Synthetic Crude Oil, and Gas Liquids	Barrels/day	13,876	11,622	10,604
Natural Gas	MMcf/day	101.1	98.8	93.4
Sulphur	Long Tons	15,280	14,680	13,690
Gas Gathering & Transmission				
(Sales)	MMcf/day	146.4	139.4	125.8
Oil Gathering & Transmission				
(Transported)	Barrels/day	110,800	113,400	117,600
Liquefied Petroleum Gas				
(Sales)	Imp. Gallons	95,900,000	88,400,000	76,500,000
Reserves				
Crude Oil, Synthetic Crude Oil and Gas Liquids	Barrels	71,460,000	70,216,000	69,733,000
Natural Gas	MMcf	653,560	582,200	603,700
Sulphur	Long Tons	323,300	326,000	241,000
Petroleum, Natural Gas and Mineral Rights				
	Gross Acres	23,381,169	20,065,818	23,408,839
	Net Acres	11,983,568	10,965,874	14,223,230
Miles of Pipeline Systems		1,358	1,350	1,317
Propane Distribution Plants		52	54	54
Number of Employees		602	567	563

*Restated to include synthetic crude oil production

1970	1969	1968	1967	1966	1965
\$33,901,000	\$34,174,000	\$29,616,000	\$26,266,000	\$23,727,000	\$21,532,000
\$15,325,000	\$14,513,000	\$14,379,000	\$11,961,000	\$10,267,000	\$10,084,000
\$ 8,912,000	\$ 8,188,000	\$ 8,196,000	\$ 6,359,000	\$ 6,416,000	\$ 6,188,000
71¢	71¢	71¢	60¢	52¢	51¢
42¢	41¢	41¢	32¢	32¢	31¢
\$10,900,000	\$11,800,000	\$ 2,900,000	\$10,200,000	\$ 4,000,000	\$ 4,300,000
\$ 2,900,000	\$ 5,000,000	\$ 2,700,000	\$ 4,100,000	\$ 3,800,000	\$ 5,400,000
19,853,829	19,662,740	5,495,291	5,360,843	5,318,160	4,395,806
228,074	293,532	353,042	399,477	399,480	458,765
—	—	—	—	12-1/2¢	25¢
55¢	55¢	55¢	55¢	55¢	27-1/2¢
9,600	9,095	8,834	8,016	7,356	6,958
95.2	88.3	81.8	73.6	71.0	63.6
13,400	10,810	10,390	6,780	4,620	4,880
120.8	120.3	108.6	102.0	94.9	83.3
122,300	123,800	122,100	118,700	112,800	102,200
67,400,000	59,800,000	53,500,000	48,300,000	43,600,000	30,700,000
63,775,000	49,746,000	46,312,000	43,826,000	41,914,000	33,350,000
619,600	597,000	595,800	590,000	524,800	554,200
255,000	246,900	257,700	—	—	—
16,335,847	18,152,342	10,994,464	8,411,515	8,827,548	7,126,752
11,100,522	12,727,674	5,846,223	2,802,253	3,074,010	1,702,441
1,248	1,109	1,091	1,010	949	895
44	37	36	37	37	33
445	356	340	360	367	322

DIRECTORS' REPORT

TO THE SHAREHOLDERS:

Revenues and net earnings in 1973 were the highest in the history of the Company, reflecting improvement in virtually all areas of operations. These results are gratifying and indicate that the Company is enjoying the benefits from current favourable market conditions and the cumulative effect of successful undertakings over a period of years.

Cash generated from operations was \$25,554,000. Capital expenditures on exploration, including Elf Oil Exploration and Production Canada Ltd., Panarctic Oils Ltd., and foreign, totalled \$17,213,000. Other expenditures, including property acquisition, plant and equipment and dividends, brought the total expenditures to \$32,784,000. These large expenditures were incurred to purchase reserves of gas and oil and participate in sufficient exploration to replace reserves currently being produced and allow a reasonable chance of future success. The cost of finding new reserves is increasing steadily and uncertainties as to government attitudes and policies continue to plague those responsible in exploration and producing companies when making decisions regarding current and future actions.

On February 8, 1974, the Company commenced an action in the courts to have declared as invalid the Saskatchewan legislation that imposes a mineral income tax and a royalty surcharge on the Company's crude oil production in that Province. The Company contends

that this legislation is beyond the competence of the Saskatchewan legislature in that it constitutes an indirect tax and an invasion of the federal power to regulate trade and commerce.

It would appear that today most governments are willing to impose legislative controls on the oil and gas industry without full appreciation of the long-term detrimental effects that such legislation may have on the country as a whole. Policies that control crude oil and gas prices so as to limit the return to oil companies will not in the long term be in the best interests of the consumer. The rate of return on oil and gas investment must be commensurate with the risk and comparable to like investments in other parts of the world. Limited profits and unlimited losses can only jeopardize future oil and gas exploration, to the detriment of the Canadian public.

Those who advocate nationalization or the formation of government owned oil companies as the most desirable method for satisfying Canada's future requirements for oil and gas, demonstrate a lack of understanding of the complicated problems related to the industry, and fail to realize the tremendous investment and the diversity of expertise required to attain success.

The highlights for the year may be summarized as follows:

1. Substantial improvement in earnings;
2. Increase in crude oil and gas prices;
3. Appreciably higher royalty revenue from the Athabasca Tar Sands project;
4. Participation in a large farm-in on the Nova Scotia continental shelf;

5. Acquisition of a concession offshore Oman;
6. Marked improvement in the results from the Liquefied Petroleum Gas Division; and
7. A major acquisition of producing gas reserves.

At the meeting of the Board of Directors in April, 1973, following the annual general meeting, Mr. E. A. Galvin, formerly President was appointed Chairman of the Board and Mr. E. G. Battle, formerly Executive Vice-President, was appointed President. On January 1, 1974, Mr. Battle resigned this appointment to become President and Chief Operating Officer of the parent company, Northern and Central Gas Corporation Limited. Mr. Galvin has again assumed the Presidency of the Company as well as retaining his position as Chairman of the Board. Your Directors extend to Mr. Battle their sincere appreciation of his valued services to the Company which have extended from 1957 to 1973 and are pleased that, although he is no longer employed by the Company, his abilities and leadership are still available.

Your Board welcomes three new Directors, Messrs. Adam H. Zimmerman, Henry S. Romaine, and Vernon Taylor.

On behalf of the Board



Chairman and President.

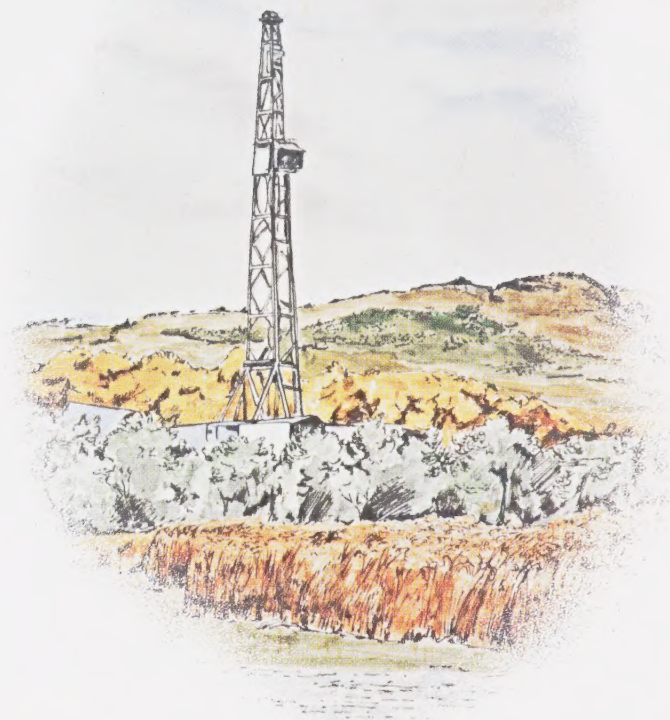
Calgary, Alberta.
March 27, 1974.

Exploration activity reached the highest level in the Company's history. Capital expenditures of \$17,213,000 were distributed as follows:

Western Canada . . .	\$ 6,902,000
Canadian	
Frontier Areas . . .	3,058,000
Elf Canada	
and Panarctic . . .	4,542,000
Foreign	2,711,000
	<u>\$17,213,000</u>

DRILLING

During the year, the Company participated in the drilling of 119 wells (40.18 net) resulting in 29 oil and 26 gas wells (6.44 and 9.54 net respectively). The following table indicates the drilling areas and compares the total drilled in 1973 to that of 1972:



	Oil		Gas		Abandoned		1973 Total		1972 Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta										
Exploratory	3	1.73	17	6.56	41	15.34	61	23.63	39	17.97
Development	25	4.47	6	1.93	6	1.99	37	8.39	27	9.52
British Columbia										
Exploratory	—	—	1	.05	7	2.94	8	2.99	10	3.25
Development	1	.24	—	—	3	.45	4	.69	10	2.63
Saskatchewan										
Exploratory	—	—	2	1.00	2	1.50	4	2.50	10	4.91
Development	—	—	—	—	—	—	—	—	1	.28
North Sea										
Exploratory	—	—	—	—	1	.20	1	.20	1	.20
Arctic										
Exploratory	—	—	—	—	—	—	—	—	4	.12
Malta										
Exploratory	—	—	—	—	—	—	—	—	1	.21
Tuktoyaktuk										
Exploratory	—	—	—	—	2	.40	2	.40	1	.20
Adriatic										
Exploratory	—	—	—	—	1	1.00	1	1.00	—	—
Tunisia										
Exploratory	—	—	—	—	1	.38	1	.38	—	—
TOTAL	<u>29</u>	<u>6.44</u>	<u>26</u>	<u>9.54</u>	<u>64</u>	<u>24.20</u>	<u>119</u>	<u>40.18</u>	<u>104</u>	<u>39.29</u>

WESTERN CANADA SEDIMENTARY BASIN

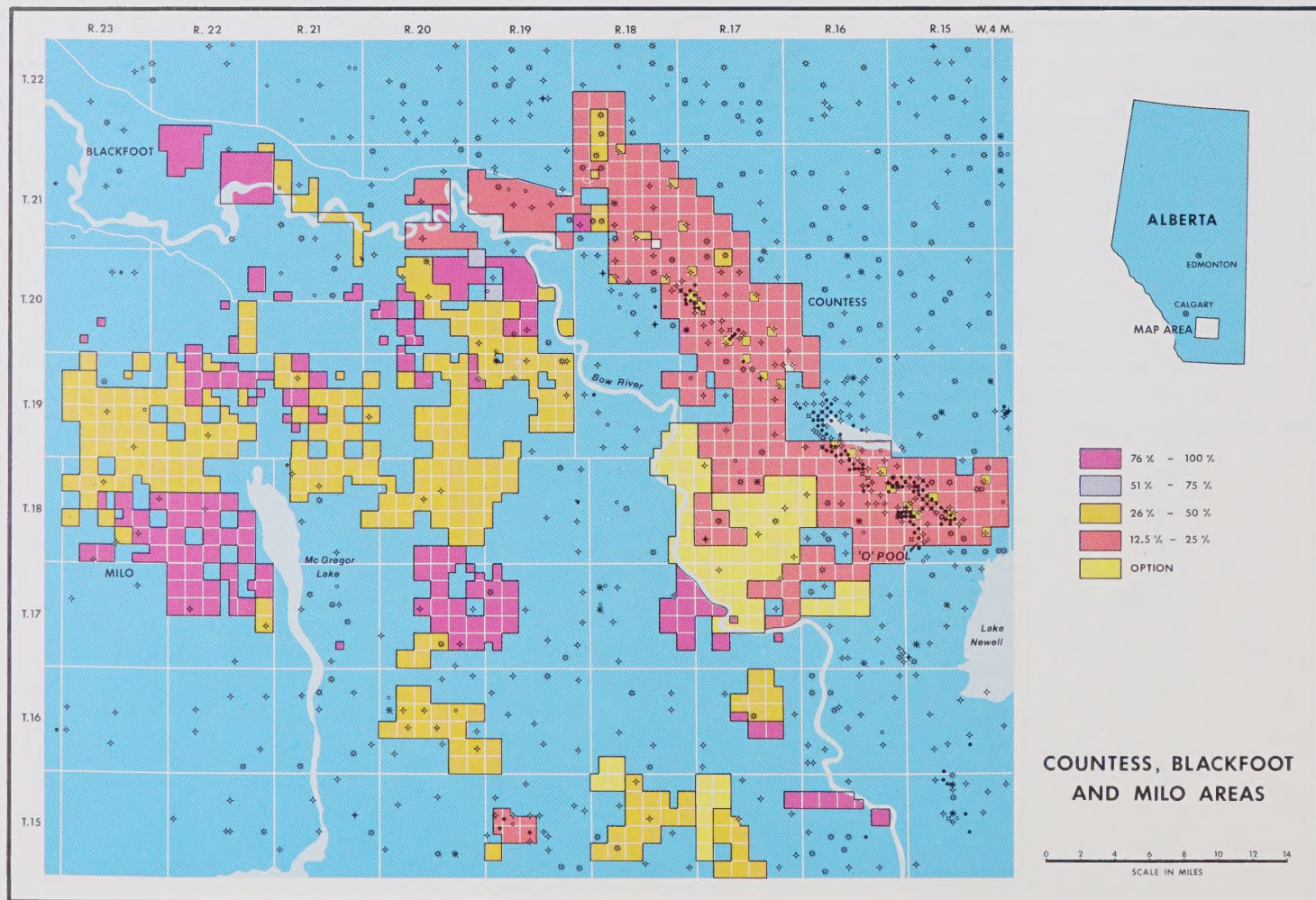
Southern Alberta

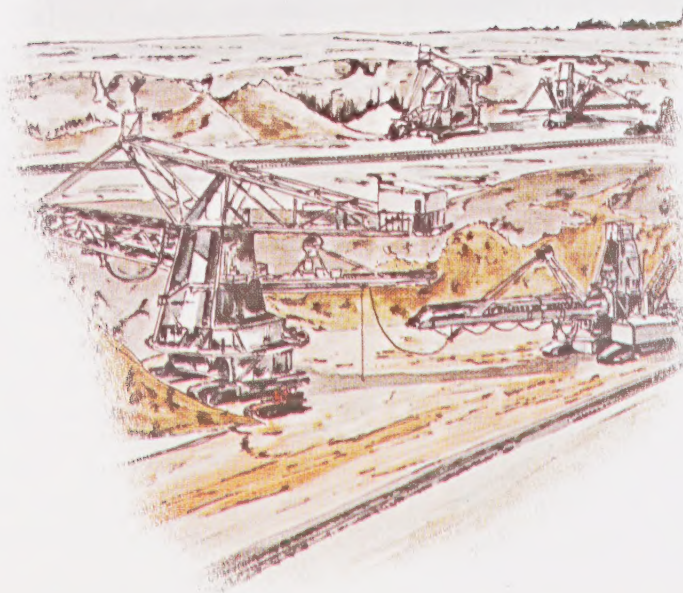
An active exploration and development drilling program of 53 wells, (35 exploratory and 18 development) resulted in 12 oil and 15 gas completions. The greatest activity was in the Countess area in which 30 wells were drilled, resulting in 5 gas and 11 oil wells.

An oil discovery was made in April 1973 known as the Countess "O" pool. Three successful follow-up wells have been completed in the pool with oil pays averaging 34 feet. The Company plans a continuing active program during 1974.

Peace River Arch (See map on page 7)

Northwest Alberta, especially in the vicinity of Peace River, received considerable attention in 1973. Lands were acquired, bringing the total in which the Company and its subsidiaries hold varying interests, to 953,000 gross (483,000 net) acres. Seismic evaluation of a portion of these lands amounted to 440 line miles and 4 wells were drilled resulting in 2 oil wells in the Golden field, and one gas well. The Company's share of current estimated recoverable reserves at Golden is 3.4 million barrels. An aggressive program will be continued in 1974.





Alberta Oil Sands

(See map on page 6)

The Company owns varying interests (averaging 81%) in approximately 250,000 acres in the heavy oil sands within, or adjacent, to, the known oil sand deposits at Cold Lake, Athabasca and Peace River, Alberta. Three wells were drilled in 1973 at Athabasca and additional drilling is planned for 1974.

In addition to the above the Company has income from its royalty interest in the Athabasca Tar Sands project to which reference is made on page 11.

CANADIAN ARCTIC

(See map on pages 14 & 15)

Sabine Peninsula

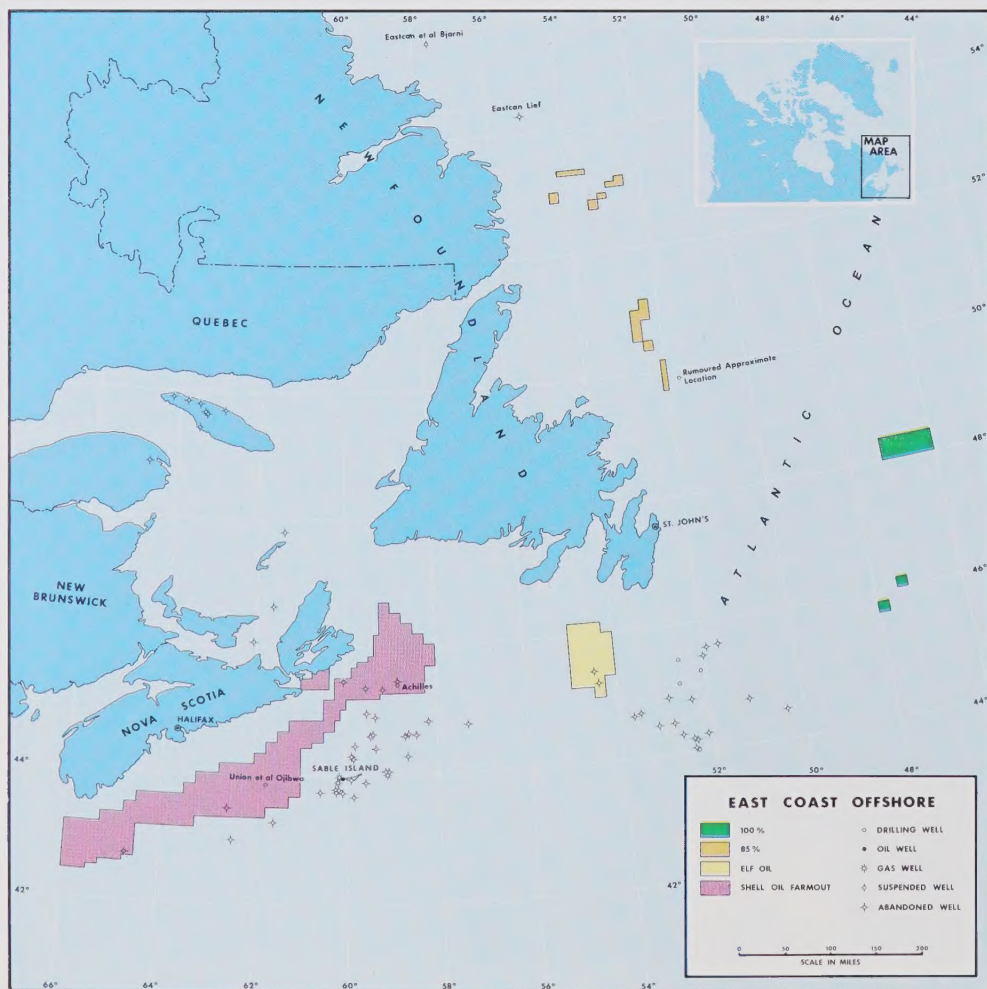
Panarctic as operator, is drilling a deep exploratory test well (18,000 feet) on the Sabine Peninsula of Melville Island, located 2,000 feet from the Drake Point gas discovery, on lands in which Prairie Oil Royalties Company, Ltd. owns a 3.15% working interest. Prairie will participate in the drilling of a 12,000-foot exploratory test located on the north end of the Sabine Peninsula on lands in which it owns a 3.15% working interest. Drilling will commence at this location in the spring of 1974.

Tuktoyaktuk Peninsula

In 1972, the Company entered into an agreement with Imperial Oil Limited, whereby the Company would earn a 20% interest in 155,000 acres in the Tuktoyaktuk Peninsula on the Canadian Arctic Coast for the drilling of 6 exploratory wells. Three of the test wells were drilled and abandoned during the 1972/73 winter season, and a fourth, commenced late in 1973, has since been abandoned. The two remaining wells, Russell and Amorak will be drilled before spring break-up, 1974.

ELF OIL EXPLORATION AND PRODUCTION CANADA LTD.

In 1969 the Company entered into an agreement to acquire a 10% interest in Elf by carrying out exploration work over a period of five years. The 1973 portion of expenditures was \$4,416,000. All financial obligations under the original arrangement should be completed by the end of 1974. During 1973 Elf participated in the drilling of 25 wells, resulting in four gas wells and one oil well. The land holdings of Elf are shown at the foot of the land schedule on inside back cover.



EAST COAST OFFSHORE

With two partners, the Company has negotiated an arrangement with Shell Canada Limited involving P.&N.G. Permits located on the Nova Scotian continental shelf. CIGOL has committed to pay 25% of the cost of 4 exploratory test wells during 1974 and will thereby earn a 12½% interest in 4 acreage blocks on which the wells are located. It also has a continuing option to participate in the drilling of an additional 5 test wells. If CIGOL participates in all of the 9 test wells drilled, it will earn a 12½% interest in the 13,464,000 acres of farm-out lands. The first well has been drilled and abandoned using the "Sedco H" drilling vessel.



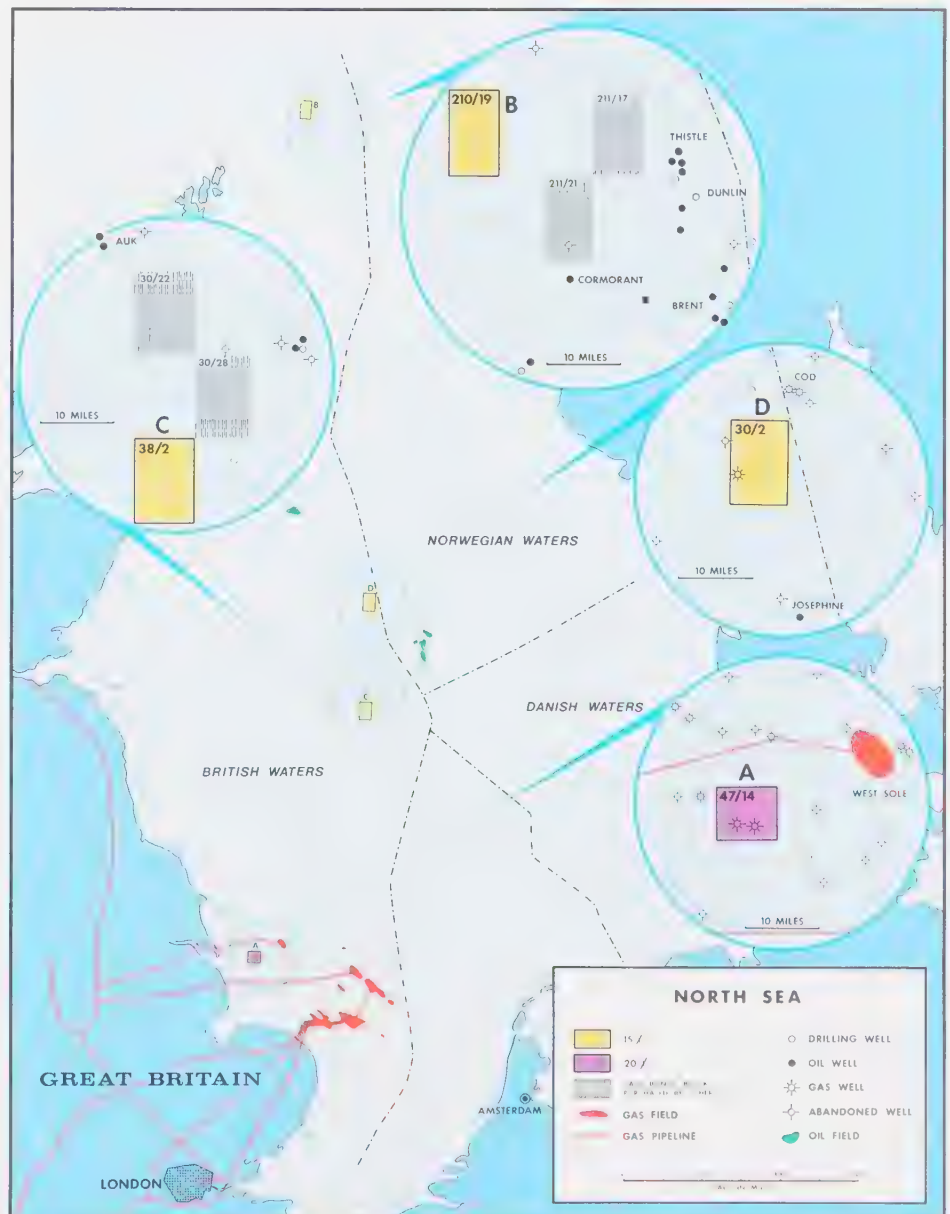
GENERAL

CIGOL is continually searching for new opportunities in foreign exploration and has been negotiating with governments and companies in various parts of the world. Some of these negotiations have reached advanced stages and it is anticipated that new exploration projects will result.

NORTH SEA

Exploration and development in the properties in the North Sea, in which the Company has an interest, was hampered during 1973 due to the lack of drilling equipment. As a result, only one well was drilled during the year. This well was on block 47/14a (20% interest) and was drilled as a delineation well and follow-up to the gas discovery made in 1972. Gas was encountered but at flow rates lower than in the discovery well. Two additional wells are planned on this block for 1974 if drilling equipment can be obtained.

In addition a well will be drilled on block 210/19 where the Company has a 15% interest. This block is located in the northern part of the North Sea between Norway and the Shetland Islands, and is in close proximity to the major oil strikes of Brent, Thistle and Dunlin. The operator for the group has contracted for the use of the drilling vessel "Odin Drill" and it is anticipated that this well will be spudded in the second quarter of 1974. Later in the year it is anticipated that the Company will again obtain the services of the "Odin Drill" to drill on block 38/2 (15% interest) located close to the oil fields of Auk and Argyll.



TUNISIA

The Company holds a 38% interest in three separate permits containing a total of 3,682,853 acres. Two permits are offshore in the Gulf of Tunis and the Gulf of Gabes and the third, Bir Tourkia permit, is located in the western desert. The first exploratory well was drilled late in 1973 on the 722,535-acre block in the Gulf of Tunis. The well was abandoned after encountering modest hydrocarbon shows. Additional seismic evaluation is being undertaken on all the concessions with a view to defining further drilling targets for 1974 and subsequent years.

OMAN

Early in 1973, together with other members of an international consortium, the Company entered into an agreement by which it obtained exploration rights over an offshore area of approximately 3,372,983 acres. The Company's interest is 31.25%. Following a reconnaissance seismic program, a structure has been chosen for the drilling of a well in late 1974. Additional seismic will be carried out to define the precise drilling location.



The Company's 1973 cash flow of \$25,554,000 was contributed by the various operating divisions as follows:

	\$	%
Crude Oil, Synthetic Crude Oil, and Gas Liquids Production	11,880,000	46.3
Natural Gas Production	4,202,000	16.5
Oil Gathering and Transmission	3,877,000	15.2
Gas Gathering and Transmission	3,273,000	12.9
Liquefied Petroleum Gas	2,322,000	9.1
	<u>\$25,554,000</u>	<u>100.0</u>



CRUDE OIL, SYNTHETIC CRUDE OIL AND GAS LIQUIDS PRODUCTION, AND RESERVES

Crude oil and gas liquids production for the year, after deduction of all royalties, increased 14% to 12,662 barrels per day, compared to 11,095 barrels per day in 1972. Crude oil production averaged 11,633 barrels per day, condensate 482 barrels and propane and butane 547 barrels. During the year the price paid for Western Canada crude oil increased by 85¢/barrel. As a result the price currently paid for the Company's crude oil production averages \$3.42 per barrel. Similar price increases were also obtained for the Company's gas liquids production. Further increases in crude oil prices and Alberta royalties are expected during 1974. In addition to the above production the Company's share of synthetic crude production and revenue from its royalty interest in Great Canadian Oil Sands Limited oil sands plant at Fort McMurray, Alberta, was 1,214 barrels per day and \$1,732,000 respectively. For every 10¢ per barrel increase in synthetic crude oil price the Company's royalty will increase by \$115,000 per annum at the 1973 production rate of 50,361 barrels per day. Great Canadian Oil Sands Limited now has approval to increase the allowable plant output to 65,000 barrels per day which, if

implemented, would increase the royalty income accordingly.

Net crude oil, synthetic crude oil, and gas liquids reserves as estimated by Company engineers at year end were 71,460,000 barrels, an increase of 1,244,000 barrels.

In 1973 the Company disposed of certain producing and non-producing properties in the Hamilton Lake, Alberta, area for \$4,515,000.

Crude Oil, Synthetic Crude Oil & Gas Liquids Production

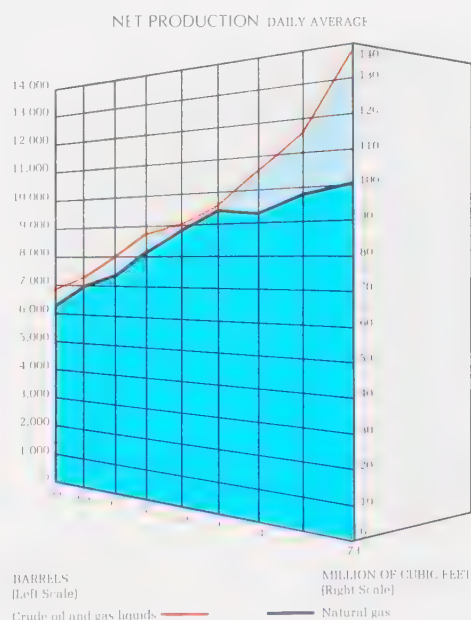
Barrels Per Day (Net)

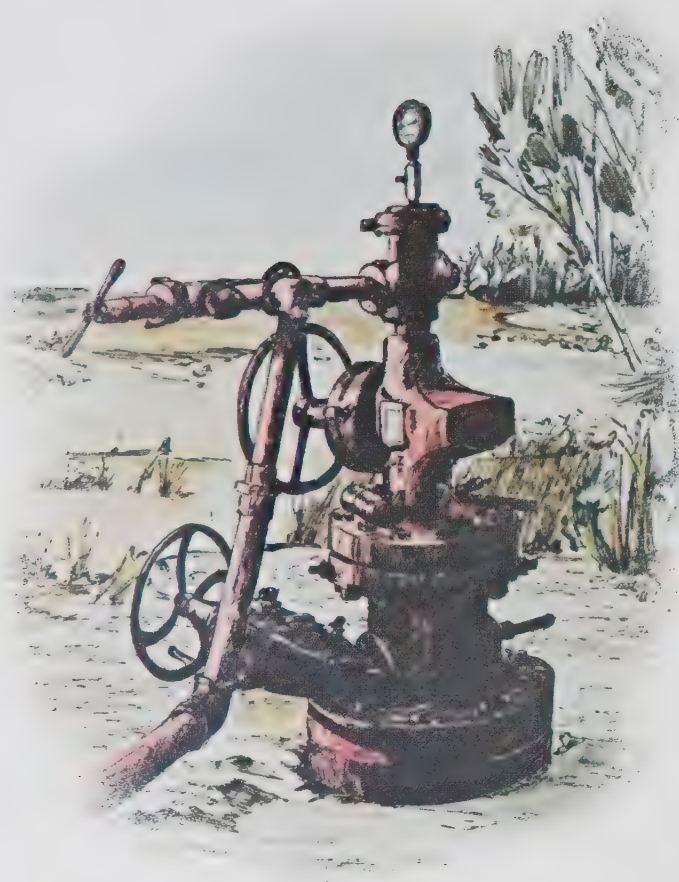
	1973	1972
ALBERTA		
Countess	2,955	1,509
Joarcam	1,009	772
Pembina	864	974
Swan Hills	514	526
Simonette	503	463
Redwater	380	304
Golden	290	125
West Drumbheller	263	169
Leduc	185	186
Swalwell	175	195
Joffre	136	215
Lloydminster	124	124
Other Fields	1,017	1,039
Synthetic		
Crude Oil	1,214	527
Royalty Interests	90	78
Condensate	482	481
Propane & Butane ...	547	510
	<u>10,748</u>	<u>8,197</u>

SASKATCHEWAN		
Weyburn	477	503
Hazlet	291	250
West Kingsford	195	196
Queensdale	104	104
Other Fields	295	301
Royalty Interests	744	776
	<u>2,106</u>	<u>2,130</u>

BRITISH COLUMBIA		
Peejay	725	979
Other Fields	245	256
Royalty Interests	35	43
	<u>1,005</u>	<u>1,278</u>

OTHER AREAS	17	17
	<u>13,876</u>	<u>11,622</u>





Natural Gas Production

Millions of Cubic Feet Per Day (Net)

	1973	1972
ALBERTA		
Westlock	18.0	15.4
Fort Saskatchewan ..	10.1	10.2
Bindloss	6.4	6.5
Nevis	6.3	6.3
Ghost Pine	6.1	6.7
Alexander	4.7	4.4
Bittern Lake	3.8	6.1
Crossfield	3.6	3.7
Craigend	3.4	3.6
Countess	2.3	1.7
Big Bend	2.2	1.3
Campbell	2.1	2.0
Other Fields	19.6	19.0
Royalty Interests	2.6	2.1
	<u>91.2</u>	<u>89.0</u>
BRITISH COLUMBIA		
Jedney Bubbles		
E. Laprise	8.1	7.9
Other Fields8	.8
	<u>8.9</u>	<u>8.7</u>
OTHER AREAS		
	1.0	1.1
	<u>101.1</u>	<u>98.8</u>

NATURAL GAS PRODUCTION AND RESERVES

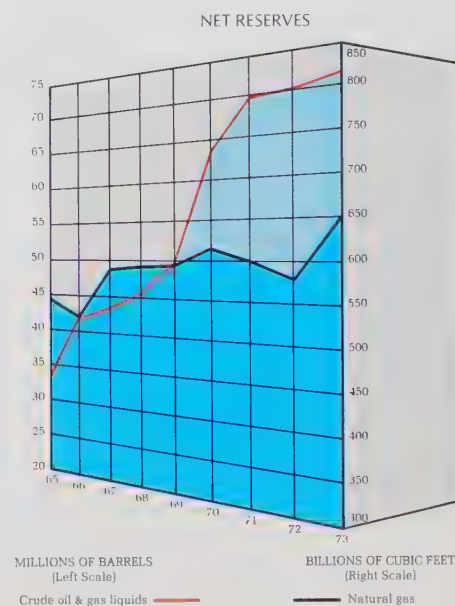
Natural gas production, after deduction of all royalties, averaged 101.1 MMcf. (million cubic feet) per day compared to 98.8 MMcf. per day in 1972. Of this production, 41.6 MMcf. per day was delivered to the Company's gas gathering and distribution system in the Edmonton, Alberta area, while 35.4 MMcf., 6.1 MMcf., and 12.2 MMcf. per day were sold to TransCanada Pipe Line Limited, Alberta & Southern Gas Co. Ltd. and Westcoast Transmission Company Limited respectively. Miscellaneous sales amounted to 5.8 MMcf. per day. Of the 41.5 MMcf. per day sold to TransCanada and Alberta & Southern, 22 MMcf. per day was re-negotiated as to price during the year, increasing the average sales price to 26.25¢ per Mcf. from 16.5¢ per Mcf. Effective November 14, 1973 the B.C. Petroleum Corporation

has offered to pay 18.5¢ per Mcf., with no royalty charge, for all gas on stream before 1965, which gas was previously being purchased by Westcoast. This price represents an effective increase of approximately 8¢ per Mcf.

Further increases in wellhead price for gas are expected during 1974 and future years. Such increases, however, will be offset in part by increased royalties.

On December 31, 1973, an interest of 55%, (increasing after payout of certain costs to 62%) in the Bruce Gas Unit of Alberta was purchased for a cash consideration of approximately \$8 million. It is anticipated that the rate of production attributable to the Company's interest will be 10 MMcf. per day in 1974.

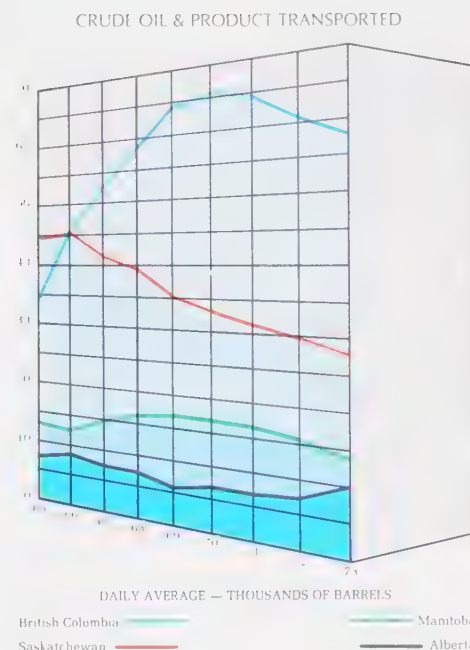
Net natural gas reserves at year end were 653,560 MMcf., an increase of 71,360 MMcf. over 1972.



OIL GATHERING AND TRANSMISSION

Trans-Prairie Pipelines, Ltd., owns and operates a total of 622 miles of gathering and transmission pipelines in the four western provinces and in 1973 transported a total of 37 million barrels of crude oil and products — an average of 101,600 barrels per day as compared to 105,400 in 1972. Proven and probable recoverable reserves in the fields served by the systems are 439 and 358 million barrels respectively.

In addition, CIGOL owns and operates an 74-mile crude oil gathering and transmission pipeline system in Alberta with deliveries of 9,210 barrels per day in 1973. The fields served by this system have reserves of approximately 20 million barrels.

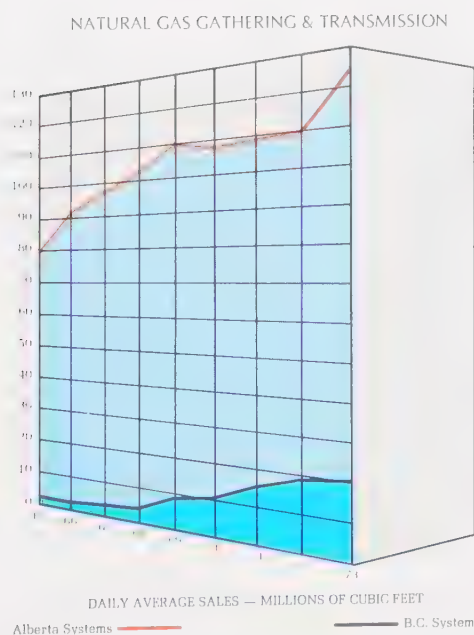


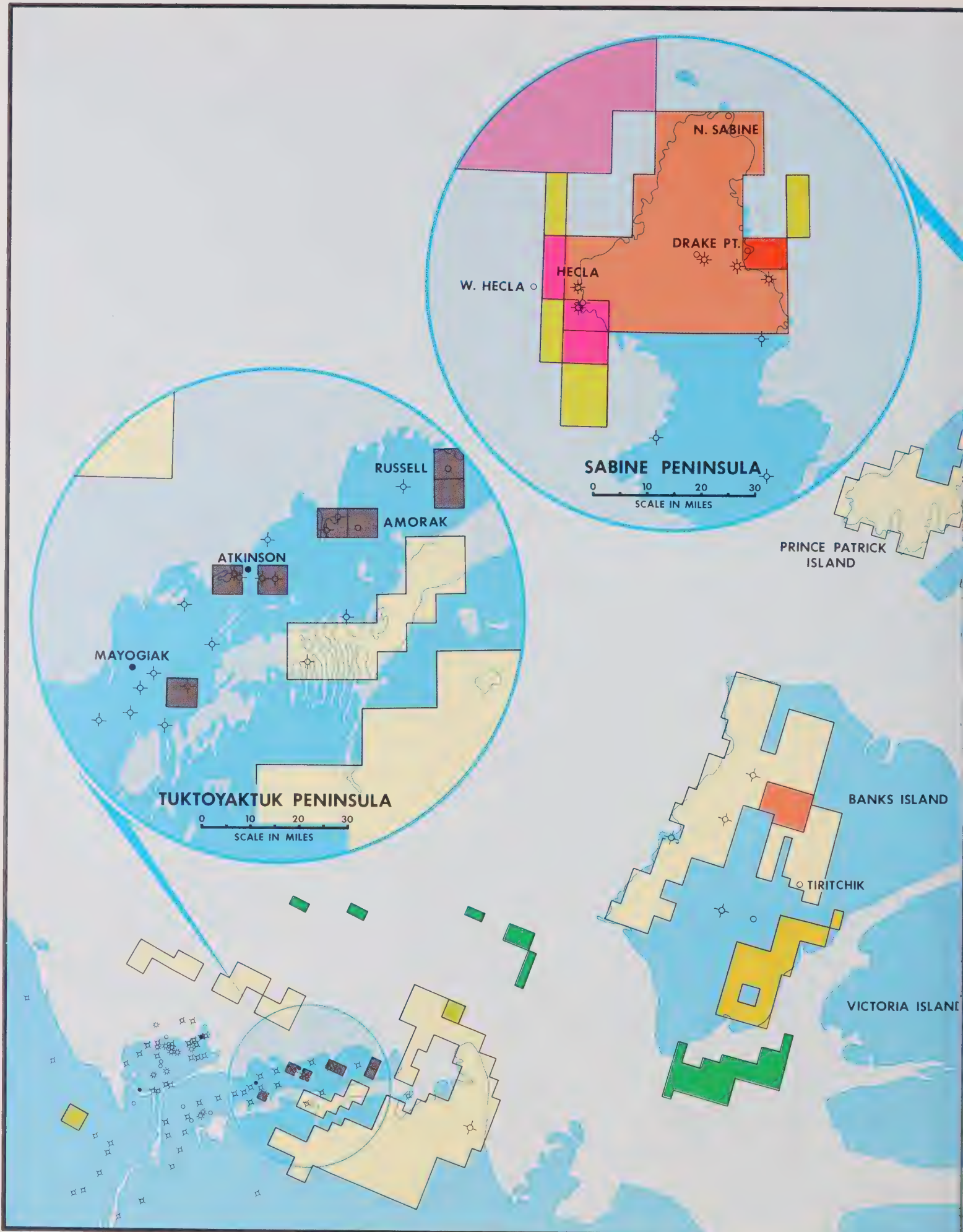
GAS GATHERING AND TRANSMISSION

The Company's industrial gas system comprises 221 miles of pipeline and two natural gas processing plants. These facilities gather and process gas produced by the Company and others for transmission and sale to industrial customers in the Edmonton area of Alberta. Approximately 60% of the gas supplied to this system is purchased under long-term contracts, the remainder being gas produced from wells in which the Company owns an interest.

Average sales from the industrial gas system were 125.2 MMcf. per day in 1973 compared to 119.5 MMcf. per day in 1972.

A wholly-owned subsidiary of Trans-Prairie Pipelines, Ltd. — Columbia Natural Gas Limited — operates a 411-mile gas utility system serving 7,708 customers in communities and industries in the east Kootenay area of British Columbia. The natural gas for this system is purchased from gas transmission companies. Continued growth in the operating area has resulted in an increase in sales from 19.2 MMcf. per day in 1972 to 20.4 MMcf. per day in 1973.



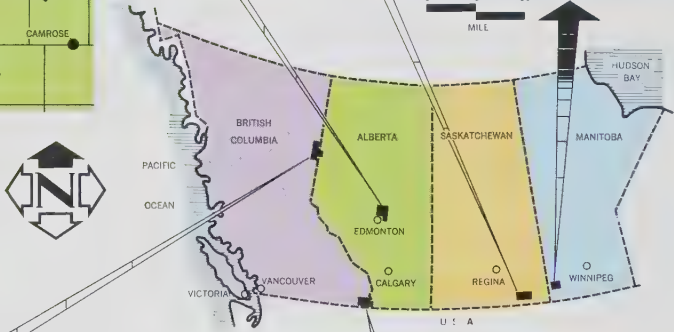
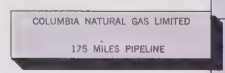
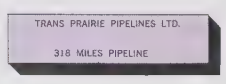
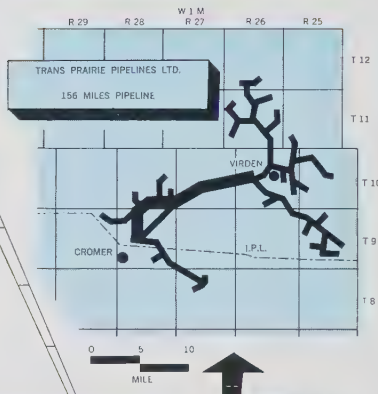
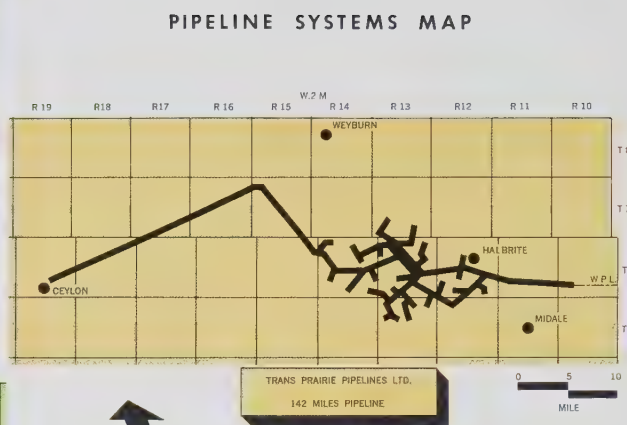
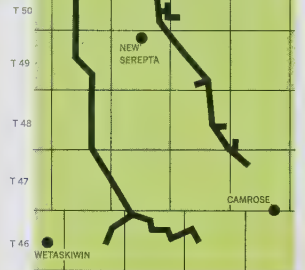
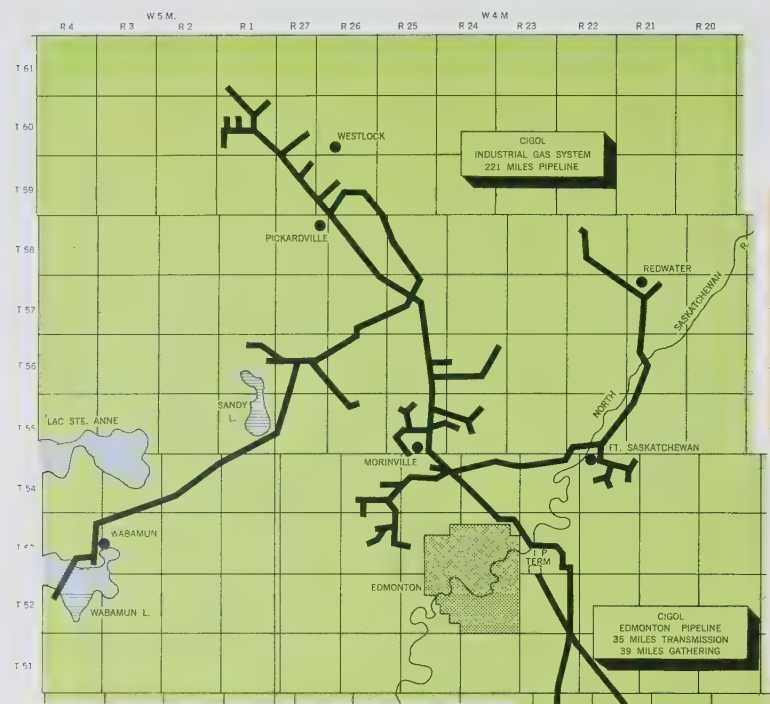




CANADIAN ARCTIC



0 50 100 150 200
SCALE IN MILES



Note: Not shown are the Beaver River gas utility system, (30 miles) and the Golden oil pipeline (6 miles) both in Alberta.

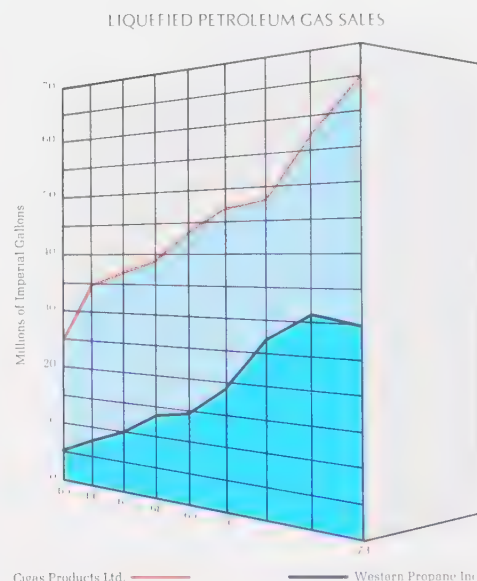
LIQUEFIED PETROLEUM GAS

Through its wholly-owned subsidiary, Cigas Products Ltd., the Company markets liquefied petroleum gases and associated appliances and equipment at the wholesale and retail levels in the western Provinces of Canada and in the States of Washington and Oregon.

Sales of propane and butane increased 8.5% to 95.9 million gallons in 1973, primarily as a result of greater sales volumes in the Province of British Columbia and the States of Washington and Oregon.

The current energy shortage in the U.S.A. has exerted pressure on Alberta propane supply and as a result prices have escalated considerably during the year. The Company has kept pace with these rapid changes by making appropriate price adjustments to the customers, which together with increased sales have resulted in a substantial increase in gross revenue and a modest increase in net revenues. Gross sales in 1973 were \$20,756,000 as compared to \$16,259,000.

Both federal and provincial regulatory bodies have become involved in the pricing and export of liquid petroleum products, which may to some extent limit flexibility which is very important to the success of this type of operation.



NET EARNINGS

Net earnings for the year were \$15,596,000, an increase of \$4,876,000 or 45% over last year. Net earnings per common share were 72¢ and 50¢ respectively.

CASH FLOW

Cash flow from operations was \$25,554,000 or \$1.17 per common share compared to \$19,476,000 or 90¢ per common share for the previous year. The improved cash flow will assist in providing the Company with the necessary funds to carry out the extensive exploration program planned for 1974.

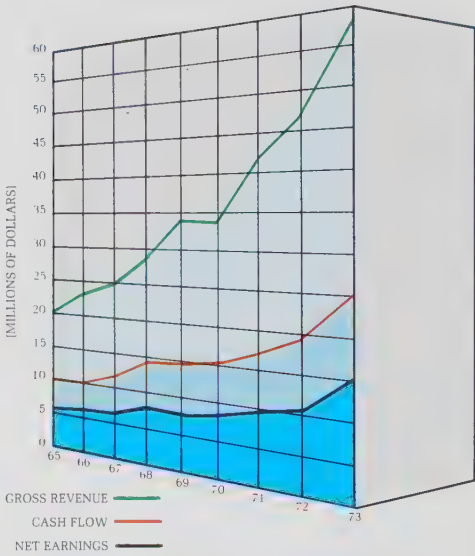
SALES, SERVICES AND OTHER REVENUE

Gross revenue increased 24% to \$58,964,000 in 1973, largely attributable to higher volumes and prices in the sales of liquefied petroleum gases, greater oil production and improved selling prices.

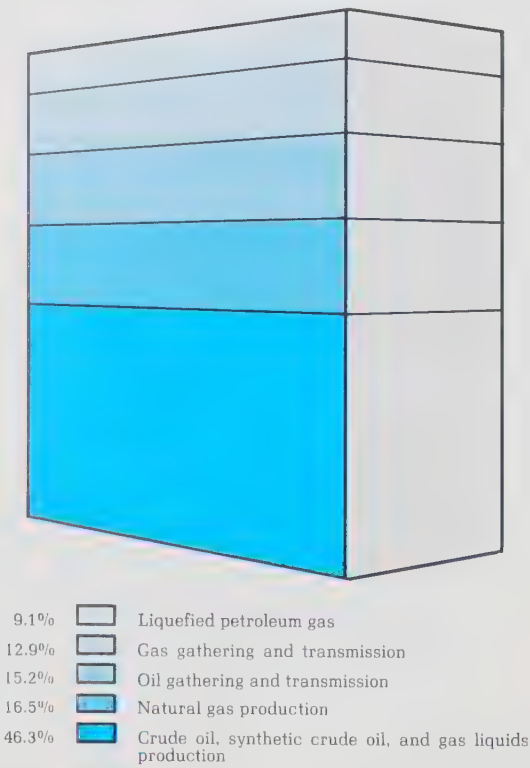
COSTS AND EXPENSES

Total cash and non-cash costs and expenses were \$43,081,000, an increase of 19%, as a result of higher costs of products purchased, larger volumes, and some increase in operating expenses.

GROSS REVENUE AND EARNINGS



CASH FLOW



PROPOSED FINANCING

The proposed \$30 million (U.S.) financing of the Company's wholly-owned subsidiary, CIGOL International Ltd., reported in the 1972 annual report, was not completed due to adverse conditions in the United States' money market.

DEFERRED INCOME TAX

The Company's current policy is to record income taxes when they become payable (flow-through method) which is consistent with the practice prevailing in the oil and gas industry. Recently various Securities Commissions have questioned the use of the flow-through method of accounting

and have stated that deferred tax accounting should be followed. Consequently the Company may adopt the deferred tax accounting method for the year 1974. Under deferred tax accounting the 1973 net earnings would have been reduced by \$5,800,000 but the cash flow would have remained unchanged.

PREFERRED SHARES

The conversion privilege attached to the 5½% cumulative preferred shares of the Company, expired on July 31, 1973 and as a result substantially all the outstanding preferred shares at that date were converted into common shares. The few remaining preferred shares were redeemed on September 30, 1973.

COMMON SHARE DIVIDEND

Two dividends, totalling \$2,155,000, were paid on the outstanding common shares of the Company on March 30 and October 19, 1973, for a total of 10¢ per share for the year.

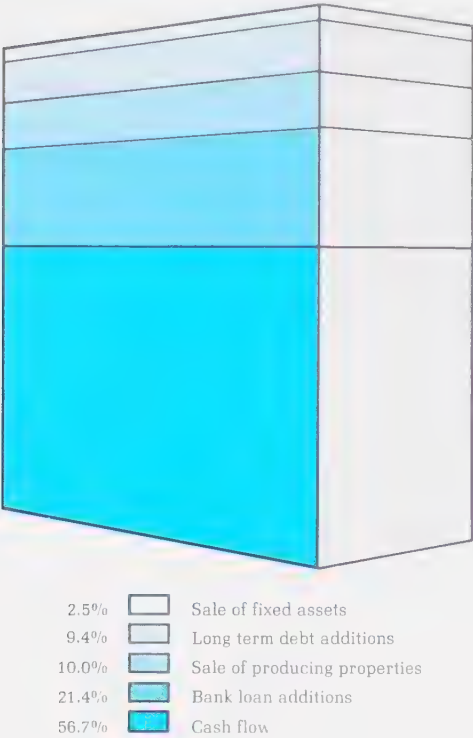
Principal Subsidiary Companies

Cigas Products Ltd. (100%)
 LP Gas marketing
 Western Propane, Inc. (100%)
 LP Gas marketing in Washington and Oregon

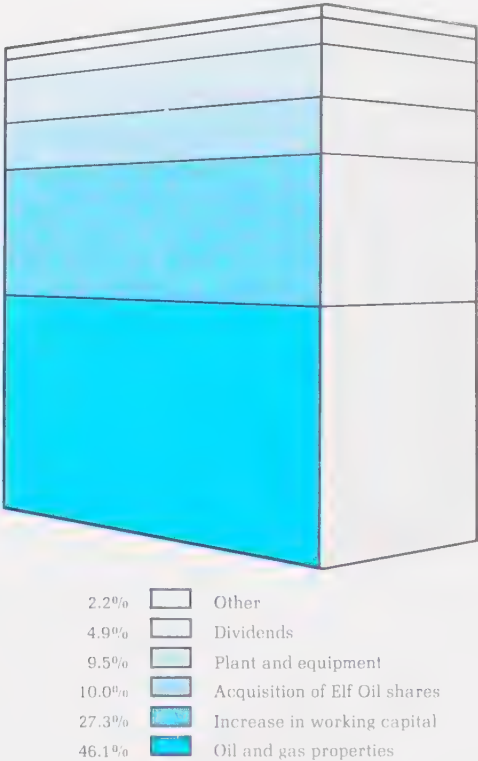
Prairie Oil Royalties Company, Ltd. (74%)
 Oil & gas exploration and production

Trans-Prairie Pipelines, Ltd. (97%)
 Oil pipelines and oil & gas exploration and production
 Columbia Natural Gas Limited (100%)
 Utility gas distribution in British Columbia

SOURCE OF WORKING CAPITAL



APPLICATION OF WORKING CAPITAL



CANADIAN INDUSTRIAL GAS & OIL LTD.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1973

	1973	1972
SALES, SERVICE AND OTHER OPERATING REVENUE	\$58,964,000	\$47,432,000
COSTS AND EXPENSES		
Gas and other merchandise purchased	17,246,000	13,273,000
Selling, operating and administrative expenses	13,917,000	12,511,000
Interest (Note 5)	2,370,000	2,026,000
Depletion	5,615,000	4,868,000
Depreciation	3,748,000	3,277,000
Minority interest	185,000	135,000
	<u>43,081,000</u>	<u>36,090,000</u>
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	15,883,000	11,342,000
Income taxes (Note 8)	<u>287,000</u>	<u>316,000</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	15,596,000	11,026,000
EXTRAORDINARY ITEM		
Loss on abandonment of propane storage facilities	<u>—</u>	<u>306,000</u>
NET EARNINGS (Note 8)	<u>\$15,596,000</u>	<u>\$10,720,000</u>
PER COMMON SHARE — based on weighted average number of common shares outstanding		
Earnings before extraordinary item	<u>\$.72</u>	<u>\$.51</u>
Net earnings	<u>\$.72</u>	<u>\$.50</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1973

SOURCE OF WORKING CAPITAL	<u>1973</u>	<u>1972</u>
Operations		
Earnings before extraordinary item	\$15,596,000	\$11,026,000
Charges not requiring working capital	9,958,000	8,450,000
Working capital generated from operations	25,554,000	19,476,000
Sale of producing properties and equipment thereon	4,515,000	—
Sale of other fixed assets	1,104,000	560,000
Bank loans additions (reductions)	9,631,000	(2,113,000)
Long-term debt additions (reductions)	1,723,000	(1,354,000)
Issue of convertible notes	2,510,000	—
Issue of common shares for cash	58,000	407,000
	<u>45,095,000</u>	<u>16,976,000</u>
 APPLICATION OF WORKING CAPITAL		
Oil and gas properties	20,789,000	9,267,000
Plant and equipment	4,298,000	6,816,000
Investments	4,542,000	4,994,000
Dividends	2,195,000	86,000
Costs of proposed public financing	408,000	375,000
Other	552,000	(320,000)
	<u>32,784,000</u>	<u>21,218,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$12,311,000</u>	<u>\$ (4,242,000)</u>

as at December 31, 1973

CURRENT ASSETS

22

Liabilities

	<u>1973</u>	<u>1972</u>
CURRENT LIABILITIES		
Accounts payable and accrued charges	\$ 8,478,000	\$ 7,433,000
Income taxes	533,000	664,000
Current maturities on bank loans and long-term debt (Notes 4 and 5)	3,174,000	3,786,000
Due to parent company	—	6,016,000
Deferred income	691,000	598,000
	<u>12,876,000</u>	<u>18,497,000</u>
BANK LOANS (Note 4)	20,759,000	11,128,000
LONG-TERM DEBT (Note 5)	15,645,000	11,412,000
MINORITY INTEREST IN SUBSIDIARY COMPANIES	2,600,000	2,467,000
DEFERRED INCOME TAXES (Note 8)	1,465,000	1,221,000
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		

Shareholders' Equity

CAPITAL STOCK (Note 6)		
Authorized		
500,000 5½% cumulative redeemable convertible voting preferred shares, par value \$10 each		
50,000,000 common shares without par value		
Issued		
Nil (1972 - 154,963) preferred shares	—	1,550,000
21,644,128 (1972 - 21,264,674) common shares	29,283,000	27,716,000
	<u>29,283,000</u>	<u>29,266,000</u>
CONTRIBUTED SURPLUS	173,000	956,000
RETAINED EARNINGS (Notes 7 and 8)	79,927,000	66,526,000
	<u>109,383,000</u>	<u>96,748,000</u>
	<u>\$162,728,000</u>	<u>\$141,473,000</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1973

	<u>1973</u>	<u>1972</u>
BALANCE AT BEGINNING OF YEAR,		
as previously reported	\$66,957,000	\$56,538,000
Adjustments of prior years' income taxes		
of subsidiary companies	431,000	646,000
BALANCE AT BEGINNING OF YEAR, as restated	66,526,000	55,892,000
Net earnings	15,596,000	10,720,000
	<u>82,122,000</u>	<u>66,612,000</u>
Dividends — preferred shares	40,000	86,000
— common shares	2,155,000	—
	<u>2,195,000</u>	<u>86,000</u>
BALANCE AT END OF YEAR (Notes 7 and 8)	<u>\$79,927,000</u>	<u>\$66,526,000</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

for the year ended December 31, 1973

	<u>1973</u>	<u>1972</u>
BALANCE AT BEGINNING OF YEAR	\$956,000	\$956,000
Costs of proposed public financing,		
subsequently cancelled	783,000	—
BALANCE AT END OF YEAR	<u>\$173,000</u>	<u>\$956,000</u>

NOTES TO 1973 CONSOLIDATED FINANCIAL STATEMENTS

Note 1 ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Industrial Gas & Oil Ltd. (the Company) and all of its subsidiaries. All subsidiaries are wholly-owned at December 31, 1973 with the exception of Prairie Oil Royalties Company, Ltd., Parys Mountain Mines Limited and Trans-Prairie Pipelines, Ltd., in which the Company has a 74%, 69% and 97% interest respectively. The excess of the cost of shares of purchased subsidiaries over the underlying net book value of their assets at dates of acquisition has been included in property, plant and equipment and is being systematically amortized on the same basis as the related assets.

Depletion

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated recoverable reserves. Costs related to the exploration for and development of mining properties are capitalized and charged to earnings if the project or property is abandoned.

Depreciation

Depreciation of pipelines, plants and equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

Foreign Exchange

Amounts in foreign currency are converted to Canadian dollars on the following bases:

- (i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date;
- (ii) Fixed assets, at the rate of exchange at the date of acquisition;
- (iii) Long-term debt payable in foreign currencies, at the rate of exchange at the date incurred; and
- (iv) Revenue and expenses, at the average rate of exchange for the period.

Note 2 INVESTMENTS

Investments at December 31, 1973 include 1,020,000 common shares (10% of the total outstanding common shares) and 1,860 preferred shares of Elf Oil Exploration and Production Canada Ltd. (Elf). On November 22, 1969, the Company entered into an agreement to subscribe for a share interest in Elf. The consideration for the Elf shares was the commitment by the Company to incur over a five-year period drilling and exploration expenses on petroleum and natural gas rights in Canada owned or controlled by Elf in an aggregate amount of \$23.5 million approximating \$4.7 million per annum. The agreement contains provisions for the acceleration of the programmed expenditures and, under certain circumstances, for the incurring of additional expenditures. A total of \$18.8 million has been incurred on drilling and exploration expenses and is included as the cost of Elf shares at December 31, 1973. The expenditures are allowable to the Company as deductions for income tax purposes.

Also included under this caption at December 31, 1973 are 333,531 shares of British Columbia Oil Lands Ltd. (approximately 35% of that company's outstanding capital stock) at a cost of \$2 million with an approximate market value of \$1.2 million. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that would be realized on sale.

Note 3 PROPERTY, PLANT AND EQUIPMENT

	1973			1972
	Cost	Accumulated Depletion and Depreciation	Net	Net
Oil and gas properties	\$117,422,000	\$38,137,000	\$79,285,000	\$ 68,333,000
Oil and gas production equipment	20,376,000	10,874,000	9,502,000	8,858,000
Pipelines and processing plants	28,105,000	19,822,000	8,283,000	9,000,000
Propane marketing equipment	18,533,000	5,413,000	13,120,000	13,560,000
Gas utility facilities	8,960,000	1,294,000	7,666,000	7,626,000
	<u>\$193,396,000</u>	<u>\$75,540,000</u>	<u>\$117,856,000</u>	<u>\$107,377,000</u>

Note 4 BANK LOANS

	<u>1973</u>	<u>1972</u>
Canadian Industrial Gas & Oil Ltd. and wholly-owned subsidiaries	\$21,530,000	\$11,962,000
Trans-Prairie Pipelines, Ltd. and subsidiary, secured by a general assignment of accounts receivable and by Series "D" First Mortgage Sinking Fund Bonds (see Note 5)	<u>1,527,000</u>	<u>1,609,000</u>
	23,057,000	13,571,000
Current maturities included in current liabilities	<u>2,298,000</u>	<u>2,443,000</u>
	<u>\$20,759,000</u>	<u>\$11,128,000</u>

Loans of Canadian Industrial Gas & Oil Ltd. and wholly-owned subsidiaries, from Canadian banks in the amount of \$21,150,000 at December 31, 1973, are evidenced by demand notes and are secured by assignment under Section 82 of the Bank Act (Canada) covering certain producing oil and gas properties together with a general assignment of accounts receivable. While the loans are payable on demand the companies have informal understandings with the banks that these loans will be paid in monthly instalments of \$75,000 beginning in March, 1974, increasing to \$242,000 in October, 1974 and to \$442,000 in February, 1975, plus interest.

Bank loans maturities for each of the four years subsequent to 1974 are as follows:

1975 — \$5.5 million, 1976 — \$5.7 million, 1977 — \$4.6 million, 1978 — \$3.0 million.

Note 5 LONG-TERM DEBT**Canadian Industrial Gas & Oil Ltd. and wholly-owned subsidiaries**

	<u>1973</u>	<u>1972</u>
57½% First Mortgage Sinking Fund Bonds, due February 1, 1983 (\$7,425,000 (U.S.)) subject to semi-annual sinking fund payments of \$325,000 (U.S.)	\$ 7,995,000	\$ 8,695,000
Convertible notes payable	2,510,000	—
Advance for drilling costs — interest-free, repayable October 1, 1982 (net of parent company share \$454,000)	908,000	911,000
Other	697,000	863,000

Trans-Prairie Pipelines, Ltd. and subsidiary

First Mortgage Sinking Fund Bonds:

6% Series "A" due June 1, 1982, subject to annual sinking fund payments of \$57,000	1,514,000	1,590,000
9% Series "B" due June 15, 1993, subject to annual sinking fund payments of \$60,000	2,500,000	—
6½% Series "C" due February 1, 1976, subject to annual sinking fund payments of \$250,000	258,000	495,000

Sinking Fund Debentures:

6¼% Series "A" due February 1, 1976, subject to annual sinking fund payments of \$80,000	<u>139,000</u>	<u>201,000</u>
	16,521,000	12,755,000
Current maturities included in current liabilities	<u>876,000</u>	<u>1,343,000</u>
	<u>\$15,645,000</u>	<u>\$11,412,000</u>

The convertible notes are payable to Company officers and key employees, bear interest at a bank prime lending rate plus ½ of 1% and are convertible into common shares from time to time to September 2, 1979 at prices of \$8.25 and \$8.63 per share. See Note 6.

Trans-Prairie Pipelines, Ltd. has authorized the creation and issue of \$3,500,000 7½% Series "D" First Mortgage Sinking Fund Bonds due March 1, 1983, all of which are held by the bank as collateral for bank loans.

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1974 are as follows:

1975 — \$.9 million, 1976 — \$1.6 million, 1977 — \$.8 million, 1978 — \$.8 million.

Interest expense of \$2,370,000 includes interest of \$2,109,000 on bank loans and long-term debt and other interest charges of \$261,000.

Note 6 CAPITAL STOCK

Changes in the Company's outstanding capital stock during the year ended December 31, 1973 were as follows:

	Preferred Shares		Common Shares	
	Number of Shares	Book Value	Number of Shares	Book Value
Balance, January 1, 1973	154,963	\$1,550,000	21,264,674	\$27,716,000
Issued for cash on exercise of options	—	—	17,316	58,000
Issued on conversion of preferred shares into common shares	(150,891)	(1,509,000)	362,138	1,509,000
Preferred shares redeemed	(4,072)	(41,000)	—	—
Balance, December 31, 1973	<u>—</u>	<u>—</u>	<u>21,644,128</u>	<u>\$29,283,000</u>

Unissued common shares of the Company are reserved at December 31, 1973 as follows:

291,231	for convertible notes payable. See Note 5.
163,300	for market growth stock options held by Company officers and key employees, exercisable from time to time to May, 1978 at prices ranging from \$8.50 to \$11.00 per share.
<u>454,531</u>	

Note 7 DIVIDEND RESTRICTIONS

The terms of the Deed of Trust and Mortgage securing the Company's First Mortgage Sinking Fund Bonds restrict the amount of retained earnings available for dividends as at December 31, 1973 to approximately \$67 million.

Note 8 INCOME TAXES

For income tax purposes the companies have claimed drilling, exploration and lease acquisition costs and capital cost allowances in amounts which, in the aggregate, exceed the related depletion and depreciation provisions reflected in the accounts. As a result income taxes for the year are payable only on the earnings of some of the Company's subsidiaries, while no income taxes are payable in respect of the earnings reported for the other companies. As at December 31, 1973 expenditures remain to be carried forward (subject to assessment by taxation authorities) and applied against future taxable income as follows:

Drilling, exploration and lease acquisition costs (including foreign costs of \$3.5 million)	\$ 9.3 million
Undepreciated capital cost	\$26.5 million

Deferred income taxes, resulting from the application of the tax allocation method of accounting, have been recorded only in the accounts of some of the Company's subsidiaries, while the other companies have provided only for the taxes payable on their taxable income for the year (flow-through method). If the deferred tax basis had been followed for all companies, additional income taxes of approximately \$5.8 million would have been provided for the year ended December 31, 1973 (1972 - \$4.4 million) and the earnings for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current year and prior periods amount to approximately \$32.4 million at December 31, 1973.

While the companies' tax accounting method is consistent with the prevailing practice in the oil and gas industry, the Securities Commissions in Canada have questioned the use of the flow-through method and studies are currently underway in this regard. In the event that these studies do not, in the opinion of the Securities Commissions, justify the use of the flow-through method, the Commissions have stated that companies in the oil and gas industry should be prepared to adopt the deferred tax basis of accounting commencing in 1974.

Note 9 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Reference is made to the commitment outlined in Note 2 with respect to the Company incurring additional drilling and exploration expenditures under the terms of the Elf agreement.

(b) Claims to the extent of approximately \$3,500,000 (U.S.) have been filed against a wholly-owned subsidiary in connection with a pipeline explosion which occurred in late 1971. Management believes that insurance coverage is adequate to cover any and all liability which may emanate therefrom.

Note 10 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration totalling \$474,000 was paid by the Company and its subsidiaries to the directors and senior officers of the Company in 1973.

AUDITORS' REPORT

To the Shareholders
Canadian Industrial Gas & Oil Ltd.

We have examined the consolidated balance sheet of Canadian Industrial Gas & Oil Ltd. and subsidiary companies as at December 31, 1973 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
February 8, 1974.

RIDDELL, STEAD & CO.
Chartered Accountants

Petroleum, Natural Gas and Mineral Rights (Acres)

DECEMBER 31, 1973

The Company's holdings increased from 20,065,818 gross (10,965,874 net) acres at the end of 1972, to 23,381,169 gross (11,828,921 net) acres at December 31, 1973, substantially due to the acquisition of the large concession in Oman territorial waters.

	Leases		Reservations Permits & Licences		Total		Net Carried Interests		Mineral Interests		Gross Royalty Interests
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
CANADA											
Arctic	116,085	6,625	4,406,482	1,354,144	4,522,567	1,360,769	—	—	—	—	—
Amundsen Gulf	—	—	1,001,435	1,001,435	1,001,435	1,001,435	—	—	—	—	—
Banks Island	—	—	1,709,993	1,320,080	1,709,993	1,320,080	—	—	—	—	—
Beaufort Sea	—	—	411,727	330,528	411,727	330,528	—	—	—	—	—
Tuktoyaktuk	—	—	155,012	31,003	155,012	31,003	—	—	—	—	—
Northwest Territories	—	—	191,686	7,667	191,686	7,667	—	—	—	—	101,522
Yukon	—	—	381,646	305,846	381,646	305,846	—	—	4,649	1,162	—
East Coast											
Flemish Pass	—	—	1,029,200	1,029,200	1,029,200	1,029,200	—	—	—	—	—
Labrador											
Offshore	—	—	1,030,978	876,331	1,030,978	876,331	—	—	—	—	—
Hudson Bay	—	—	610,112	610,112	610,112	610,112	—	—	—	—	—
Alberta	2,362,398	1,002,253	923,403	672,636	3,285,801	1,674,889	280,958	9,910	47,360	27,897	331,109
British Columbia	367,844	115,923	308,855	152,982	676,699	268,905	128,801	10,026	—	—	341,628
Manitoba	76,463	23,542	—	—	76,463	23,542	122	29	—	—	960
Ontario	4,252	4,252	1,890	1,890	6,142	6,142	—	—	—	—	—
Saskatchewan	161,042	95,089	232,590	164,135	393,632	259,224	80	22	—	—	407,759
FOREIGN											
Adriatic Sea	—	—	82,117	42,934	82,117	42,934	—	—	—	—	—
Malta	—	—	426,322	90,593	426,322	90,593	—	—	—	—	—
North Sea	—	—	259,831	62,210	259,831	62,210	—	—	—	—	—
Oman	—	—	3,372,983	1,054,057	3,372,983	1,054,057	—	—	—	—	—
Sicily	—	—	73,970	73,970	73,970	73,970	—	—	—	—	—
Tunisia	—	—	3,682,853	1,399,484	3,682,853	1,399,484	—	—	—	—	—
Wales	—	—	—	—	—	—	—	—	1,040	1,040	—
TOTAL	3,088,084	1,247,684	20,293,085	10,581,237	23,381,169	11,828,921	409,961	19,987	53,049	30,099	1,182,978

Applications for Leases in Alaska covering 957,512 gross (299,222 net) acres are awaiting acceptance, and are not included in the above table.

The above figures do not include Elf acreage, as follows, in which the Company has a 10% interest:

	Gross	Net
Arctic Islands	25,776,568	14,354,225
Beaufort Sea	2,153,350	1,013,157
Mackenzie Delta	4,194,521	3,219,425
Offshore East Coast	4,297,618	2,800,549
Hudson Bay	19,457,005	1,541,025
Alberta	735,103	222,203
British Columbia	1,083,365	273,670
TOTAL	57,697,530	23,424,254

CANADIAN INDUSTRIAL GAS & OIL LTD.
1973 ANNUAL REPORT

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IN
CANADA

Gas Sales Contracts

Gas sales contracts in respect of approximately 12 billion cubic feet per year have been re-negotiated with three gas transmission companies, which will result in increased annual revenues in excess of \$1,000,000.

Crude Oil Price Increase

Effective August 1, 1973, a 40¢ per barrel increase in the wellhead price of crude oil was announced by most crude oil purchasers. At current production rates this increase will add in excess of \$2,000,000 to the Company's annual revenue.

Preferred Shares

The conversion privilege attached to the Company's preferred shares expired on July 1, 1973, and as a consequence the majority of the outstanding shares were converted to common shares prior to that date.

New Appointments

At the meeting of the Board of Directors held on July 31, 1973, two additional directors were appointed; Mr. Vernon Taylor, retired and formerly a Senior Vice President and Director of Imperial Oil Limited, and Mr. Henry S. Romaine, Senior Vice President with The Mutual Life Insurance Company of New York.

On Behalf of the Board


President

Calgary, Alberta
August 17, 1973

CANADIAN
INDUSTRIAL
GAS & OIL LTD.

INTERIM REPORT

JUNE 30, 1973

To The Shareholders:

Financial

For the six months ended June 30, 1973, revenue was \$26,246,453 compared to \$22,926,399 for the corresponding period of 1972 due primarily to increases in production and the wellhead price of crude oil. Consolidated net earnings increased 39% to \$6,795,909 or 31¢ per share while cash flow increased 27% to \$11,359,815 or 52¢ per share.

Drilling

The Company participated in the drilling of 54 gross wells (18.17 net) of which 13 (3.73 net) were oil wells, 10 (3.22 net) were gas wells and 31 (11.22 net) were abandoned.

Countess-Lathom Area

Drilling in this area of Alberta resulted in a glauconitic sand oil discovery. Three follow-up wells have been drilled resulting in two oil wells and one dry hole. Additional development drilling will be carried out in the immediate future on this acreage in which the Company owns a 22½% interest.

Arctic Islands

Panarctic Oils Ltd., as operator for a group, has spudded a deep test located 2,000 feet from the original Drake Point gas discovery. The projected 17,500 foot Devonian test is located on land in which the Company (through its interest in Prairie Oil Royalties Company, Ltd.) holds a 3.15% working interest. The test will not reach its prime objective until late in 1973.

North Sea

The Company participated in the drilling of a gas well located 1¼ miles from the gas discovery made in October 1972 on Block 47/14. The Company has a 20% interest in the acreage on which both wells were drilled.

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended June 30

(Unaudited)

	1973	1972
SALES, SERVICE AND OTHER OPERATING REVENUE	\$26,246,453	\$22,926,399
COSTS AND EXPENSES		
Gas and other merchandise purchased	7,003,879	6,452,699
Selling, operating and administrative expenses	6,692,885	6,519,900
Interest	1,104,203	997,628
Depletion	2,539,888	2,131,656
Depreciation	1,873,405	1,609,083
Minority interest	147,009	104,001
	19,361,269	17,814,967
EARNINGS BEFORE INCOME TAXES	6,885,184	5,111,432
Income taxes	89,275	238,224
NET EARNINGS	\$ 6,795,909	\$ 4,873,208
EARNINGS PER COMMON SHARE — based on weighted average number of common shares outstanding		
Cash flow	52¢	41¢
Net earnings	31¢	23¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Six Months Ended June 30

(Unaudited)

	1973	1972
FUNDS DERIVED FROM		
Operations		
Net earnings	\$ 6,795,909	\$ 4,873,208
Charges not requiring funds	4,563,906	4,043,244
Funds generated from operations	11,359,815	8,916,452
Sale of fixed assets	224,356	335,275
Issue of common shares for cash	1,001	104,001
Long term debt increase - net	2,592,574	2,679,815
	14,177,746	12,035,543
FUNDS APPLIED TO		
Oil and gas properties	4,815,143	3,727,527
Plant and equipment	1,267,843	1,928,790
Dividends - common shares	532,246	—
- preferred	39,139	43,607
Investment in shares of other companies	1,217,785	2,463,494
Reduction of minority interest in subsidiary company	—	73,475
Other	332,542	(48,113)
	8,204,698	8,188,780
INCREASE IN WORKING CAPITAL	\$ 5,973,048	\$ 3,846,763